EXHIBIT 27

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

MYCONE DENTAL SUPPLY CO., INC., d/b/a KEYSTONE RESEARCH & PHARMACEUTICAL,

Plaintiff,

v.

CREATIVE NAIL DESIGN, INC.,

Defendant.
_____/

No. C 12-00747 RS

ORDER DENYING MOTION TO DISMISS OR, IN THE ALTERNATIVE, TO STAY

I. INTRODUCTION

Third-party defendants Young Nails, Inc., Cacee, Inc., and Nail Systems International (NSI) move to dismiss or, in the alternative, stay, claims of patent infringement asserted against them by defendant Creative Nail Design, Inc. (CND). They argue, pursuant to Federal Rule of Civil Procedure 12(b)(6), that CND's claims for relief, styled as "Claims Against Joined Parties," are impermissible under Federal Rule of Civil Procedure 14. CND opposes the motions for reasons explained below. Upon consideration of the briefs, this matter is suitable for resolution without oral argument pursuant to Civil Local Rule 7-1(b), and for all the reasons stated below, the motion to dismiss, or in the alternative, to stay defendant's counterclaims, must be denied.

II. BACKGROUND

Plaintiff Keystone is a New York corporation with its principal place of business in Cherry Hill, New Jersey. It manufactures and sells cosmetic products, including nail coating products, in bulk, to other nail polish companies, who package the products and sell them under their own trade

names to nail salons and customers.[1] Keystone does not sell directly to consumers. Among Keystone's customers are the third-party defendants who bring the present motion.

CND also manufactures nail care products, and holds, by assignment, U.S. Patent No. 6,803,394 ("the '394 patent"). According to the movants, CND's counsel recently sent demand letters to them, asserting infringement of the'394 patent, and prompting Keystone to file the instant declaratory relief action to protect its customers and defend its products against the allegation of infringement. In the complaint, Keystone requests declarations of non-infringement and invalidity, but no damages. CND responded with a counterclaim for infringement against Keystone, and in the same pleading document, certain "claims against joined parties." (*See* Dkt. No. 8). Specifically, CND alleges that third-party defendants Young Nails, Cacee, and NSI "[have] been and [are] still directly and/or indirectly infringing at least claim 13 of the '394 patent … by selling and/or offering for sale products embodying the patented inventions of the '394 patents." (*Id.* at ¶¶ 40, 46, 52.) CND also accuses the third-party defendants of willful infringement. (*Id.* at ¶¶ 41, 47, 53.)

III. DISCUSSION

A. Motion to dismiss

Under the Federal Rules of Civil Procedure, dismissal is appropriate if the claimant either does not raise a cognizable legal theory or fails to allege sufficient facts to support a cognizable claim. *See* Fed. R. Civ. P. 12(b)(6); *Balistreri v. Pacifica Police Dep't*, 901 F.2d 696, 699 (9th Cir. 1990). The third-party defendants raise several related arguments in support of their motion to dismiss flowing from the procedural posture of this action. First, they maintain they have been improperly joined under Rule 14(a)(1). That provision of the Federal Rules provides a defendant "may, as a third-party plaintiff, serve a … complaint on a nonparty *who is or may be liable to it for all or part of the claim against it*" (emphasis added). They argue that CND's infringement allegations do not rest upon a theory of secondary or derivative liability, and are therefore not procedurally proper under Rule 14. *See, e.g., Stewart v. Am. Int'l Oil & Gas Co.*, 845 F.2d 196, 200 (9th Cir. 1988) (internal citations omitted) ("The crucial characteristic of a Rule 14 claim is that

[1] Some of Keystone's customers modify the products before they are sold, for example, by mixing in certain pigments.

defendant is attempting to transfer to the third-party defendant the liability asserted against him by the original plaintiff"). Alternatively, the third-party defendants argue that Rule 14 cannot support joinder in a declaratory relief action such as this.

CND agrees that Rule 14 is inapplicable here. It maintains that the third-party defendants were instead joined permissively by operation of Rules 13 and 20. *See* Fed. R. Civ. P. 13(h) ("Rules 19 and 20 govern the addition of a[n additional] person as a party to a counterclaim or crossclaim."). Rule 20(a)(2) allows for permissive joinder of defendants "if any right to relief is asserted against them jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences" and "any question of law or fact common to all defendants will arise in the action." The Federal Circuit has recently held that Rule 20's "transaction or occurrence" standard is met if there is "substantial evidentiary overlap in the facts giving rise to the cause of action against each defendant." *In re EMC Corp.*, --- F.3d ----, 2012 WL 1563920, at *6 (Fed. Cir. May 20, 2012). "In other words, the defendants' allegedly infringing acts, which give rise to the individual claims of infringement, must *share* an aggregate of operative facts."[2] *Id.* (emphasis in original). The third-party defendants, in their reply brief, appear to agree that this is the applicable test. (Third Party Defs.' Reply Br. at 1:10-17.)

CND argues *EMC*'s standard is met by virtue of the business relationship between Keystone and the movants. Indeed, the existence of the business relationship between Keystone and each of the three third-party defendants does form "an aggregate of operative facts," at least for purposes of CND's indirect infringement claims. Accordingly, defendants have been properly joined under Rule 20. Based on CND's representation, the third-party defendants reply that CND should be willing to stipulate that its assertions of infringement against them are limited to the same products at issue as between CND and Keystone. That does not necessarily follow, however, from CND's mere allegation of a business relationship. As defendants' own moving papers acknowledge, they may modify the cosmetic products they purchase from Keystone before reselling them to consumers. (Third Party Defs.' Mot. at 2:21-23.) More to the point, CND's refusal to stipulate is

[2] CND also notes that the joinder rule set forth in the newly-enacted Leahy-Smith America Invents Act, which applies to this case, adopts a nearly identical test. *See* 25 U.S.C. § 299.

irrelevant for purposes of a motion to dismiss because it has already established a basis to proceed under Rule 20. Accordingly, the motion to dismiss must be denied.

B. Motion to stay

The third-party defendants also move to stay CND's claims against them, invoking a doctrine referred to by the parties as the "manufacturer's suit" or "customer suit" exception. As this Court has previously observed, that doctrine is an "exception to the venue rule that when two or more patent infringement suits, involving the same or similar parties and issues, are filed, courts normally grant priority to the first-filed suit and enjoin or stay the other suits." *Privasys, Inc. v. Visa Int'l*, No. C 07-03257, 2007 WL 3461761, at *3 (N.D. Cal. Nov. 14, 2007). The exception may be applicable if the first-filed suit in one district court is against customers of the infringing manufacturer, and subsequent litigation arises in another district court between the patentee and the manufacturer itself. *Id.* In that circumstance, a rebuttal presumption arises that a manufacturer's declaratory judgment action that is filed in its home forum and promptly after the patentee's instigation of litigation against its customers, should take precedence over earlier-filed customer suits. *Id. Codex Corp. v. Milgo Elec. Corp.*, 553 F.2d 735, 737-38 (1st Cir. 1977). "Where, as here, plaintiff has brought suit against both the supplier and its customers in the same suit and in the same district, the 'customer suit' exception does not apply." *Privasys*, 2007 WL 3461761, at *3; *Codex*, 553 F.2d at 738.

As CND further emphasizes, the present action is easily distinguished from the cases upon which the movants rely. *See, e.g., Katz v. Lear Siegler, Inc.*, 909 F.2d 1459 (Fed. Cir. 1990); *Hewlett Packard Co. v. Papst Licensing GmbH & Co.*, 767 F. Supp. 2d 1 (D.D.C. 2011). Those cases all arose within the context of multiple suits proceeding in different jurisdictions, whereas here, the third-party defendants merely seek to stay the claims asserted against them in this single suit. Accordingly, the doctrine, at least as it is traditionally delimited, does not apply.

To the extent the movants suggest that staying the claims against them may nonetheless be appropriate, there has not yet been an adequate showing that entry of a stay would promote the efficient and fair adjudication of this case. To evaluate the request, the Court must consider whether: (1) entry of a stay would unduly prejudice or present a clear tactical advantage to the

nonmoving party; (2) entry of a stay would simplify the issues and the ensuing trial; and (3) discovery is complete and a trial date has been set. *In re Cygnus Telecomms. Tech., LLC Patent Litig.*, 385 F. Supp. 2d 1022, 1023 (N.D. Cal. 2005). Here, the third-party defendants insist that entry of a stay will not prejudice CND, and adjudication of CND's claims against Keystone will "largely resolve" the claims against them. Specifically, they suggest that invalidation of the '394 patent will obviate the need for further proceedings on CND's claims against them. While that is undeniably true, there does not appear to be agreement between the parties, or alternatively, sufficient evidence in the record to demonstrate, that CND's claims against the third-party defendants are in fact duplicative of its claims against Keystone. To the contrary, there is at least some indication that the third-party defendants may alter the products they purchase from Keystone before reselling them to consumers or retailers; CND further speculates that Keystone may sell varying formulations of its products to its different customers. The movants have not produced any evidence in connection with their present motion to the contrary.

As a consequence, at least on the current record, the motion to stay must be denied without prejudice. Should the third-party defendants develop the record to provide greater support for their request, they may, if they so elect and have a good faith basis for doing so, renew the motion.

IV. CONCLUSION

For the reasons set forth above, the motion to dismiss, or in the alternative, to stay all of CND's claims against the third-party defendants, is denied.

IT IS SO ORDERED.

Dated: 5/30/12

RICHARD SEEBORG
UNITED STATES DISTRICT JUDGE